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RRB Financial Reports

The Railroad Retirement Board is required by law to submit annual reports to Congress on the financial condition of the railroad retirement system and the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the Board submitted its 1999 reports on the railroad retirement and unemployment insurance systems.

The following questions and answers summarize the findings of these reports.

1. How much money is in the Railroad Retirement Board trust funds?

By the end of Fiscal Year 1998, the balance of the railroad retirement trust funds was almost $16.5 billion, while the railroad unemployment insurance system held a balance of $102.5 million.

2. What was the overall finding of the 1999 report on the financial condition of the railroad retirement system?

The 1999 report, which addressed railroad retirement financing during the next 25 years, was generally favorable and reflected an improvement over last year's report. It concluded that, barring a sudden, unanticipated, large decrease in railroad employment, no cash-flow problems arise during the next 25 years. However, like previous reports over the last decade, the 1999 report also indicated that the long-term stability of the system, under its current financing structure, is still dependent on future railroad employment levels.

Over the years, the main source of income to the railroad retirement system has been a payroll tax on railroad employment. The amount of income that the tax produces is directly dependent on the number of railroad employees covered under the system. Therefore, actual levels of railroad employment over the coming years will largely determine whether any financing changes are necessary to ensure the system's solvency.

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3. What methods were used in forecasting the financial condition of the railroad retirement system?

The 1999 report projected the various components of income and outgo of the railroad retirement system under three employment assumptions, utilizing different patterns of changes and decreases in the railroad work force for the 25 calendar years 1999-2023. The projection of these components were combined and the investment income calculated to produce the projected balances in the railroad retirement accounts at the end of each projection year.

4. How did the 1999 report on the financial condition of the railroad retirement system compare with the 1998 report?

Projecting income and outgo under optimistic, moderate and pessimistic employment assumptions, the 1999 report indicated positive balances at the end of the projection period under all three assumptions.

Last year's report indicated positive balances at the end of the projection period under the optimistic and moderate assumptions. An actuarial deficiency was indicated under the pessimistic assumption; although even under that assumption, no cash-flow problem arose until the year 2022.

Favorable employment, wage increase and inflation experience led to higher projected balances under each employment assumption than in last year's report.

5. Did the 1999 report on the railroad retirement system recommend any railroad retirement payroll tax rate changes?

The report did not recommend any change in the rate of tax imposed on employers and employees. The absence of projected cash-flow problems for 25 years under even a pessimistic employment assumption indicated that an immediate increase in tax rates is not required. However, the continued dependence on future entrants to fund the past service costs of current and former employees, along with the declining account balance under the pessimistic employment assumption, indicate that a decrease in tax rates may be premature.

(More)

6. What were the findings of the 1999 report on the financial condition of the railroad unemployment insurance system?

The Board's 1999 railroad unemployment insurance financial report was also favorable, indicating that even as maximum benefit rates increase 43 percent (from $44 to $63) from 1998 to 2009, experience-based contribution rates are expected to keep the unemployment insurance system solvent except under the Board's most pessimistic employment assumption. Even then, projections show only a small, short-term cash flow problem in Fiscal Year 2002, with repayment of the loans resulting from the shortfall during Fiscal Year 2003.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience rating provisions, which adjust contribution rates for changing benefit levels, and its surcharge trigger for maintaining a minimum balance ensure financial stability in the advent of adverse economic conditions.

Under the experience rating provisions, each employer's contribution rate is determined by the Railroad Retirement Board on the basis of benefit payments made to the railroad's employees. The report predicted that, even under the most pessimistic assumption, the average employer contribution rate remains well below the maximum through the projection period.

Due to recent increases in employment levels and low rates of unemployment, the report also predicted that the 1.5 percent surcharge that went into effect in calendar year 1998 and continued in calendar year 1999, would not be levied in calendar years 2000 and 2001.

7. What methods were used to evaluate the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the report on the retirement system. Projections were made for various components of income and outgo under each of three employment assumptions, but for the period 1999–2009, rather than a 25-year period.

8. Did the 1999 report on the railroad unemployment insurance system recommend any financing changes to the system?

No financing changes were recommended at this time by the report.

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